

## **Child Care Programs**

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**Background.** The state makes subsidized child care services available to (1) families on public assistance and participating in work or activities conducive to employment, (2) families transitioning off public assistance programs, and (3) other families with exceptional financial need. Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services and the California Department of Education, depending upon the family's progress in transitioning from welfare-to-work.

Stage 1 child care services are administered by the Department of Social Services for families currently receiving public assistance, while Stages 2 and 3 are administered by the Department of Education. Families receiving Stage 2 child care services have been deemed "stable" and are either receiving cash assistance or are in a two-year transitional period after leaving cash aid.

Families receiving Stage 3 child care services have either exhausted their two-year Stage 2 eligibility or are deemed to have exceptional financial need (the "working poor"). Child care services for Stage 3 are divided into two tiers: General Child Care is available on a limited basis for families with exceptional financial need, while the Stage 3 Set-Aside makes child care slots available specifically for former CalWORKs recipients. Under current practice, services to these two populations are supplied by the same group of child care providers; however, waiting lists are kept separate with priority being granted to the former CalWORKs recipients.

**2004-05 Child Care Policy Proposals.** The proposed 2004-05 Budget contains a total of \$2.37 billion (both General Fund and federal funds) to provide child care services to CalWORKs and former CalWORKs recipients, as well as the "working poor".

As part of his 2004-05 budget, the Governor proposes a variety of programmatic reforms to the state's subsidized child care programs. The proposals -- which will likely require statutory changes -- are aimed at saving the state General Fund monies, creating more "equity" between former CalWORKs recipients and the general public in obtaining child care services, and improving the quality of available childcare. Generally, the reforms would (1) limit eligibility, (2) increase costs to families, (3) limit the amount of time families can receive care, and (4) decrease the reimbursement rates to providers. Further, the Governor has included an additional \$2 million in his budget proposal to develop a program aimed at mitigating and eliminating fraud within the various child care programs. At the time of this publication, the exact statutory language associated with the above-noted reforms is still pending; however, the proposals are outlined in broad terms below.

**Family Fees.** The budget proposes to lower the threshold at which families start paying a child care fee. Currently, a family of three does not begin paying child care fees until the family

income reaches \$1,950 a month (\$23,400 per year). This proposal would decrease that threshold (for a family of three) to \$1,560 a month (\$18,720).

Under this proposal, family fees would be paid directly to providers (which is a change from current practice) and would be capped at no more than 10 percent of their income (i.e., \$156 per month based on the above scenario). Currently, fees are capped at no more than 8 percent of household income (\$125 per month, based on a \$1,560 per month income).

Further, the Governor proposes to limit the fee exemption in current law which allows the families of children who receive child care due to a professional referral (teacher, psychologist, etc.) to avoid paying any family fees. Under these circumstances, the professional alleges that the child may be at risk of abuse or neglect. The Governor's proposal would require families falling into this category would begin paying fees after three months. Families referred for child care services by Child Protective Services (CPS) would be allowed a one-year moratorium and would begin paying fees after that time.

**Limiting Eligibility.** The Governor proposes to limit program eligibility in a variety of ways, including changes to child age limits, income eligibility thresholds, and capping the length of time families may receive subsidized care. More specifically:

- **Age Limits.** The proposal would redirect children ages 11 and 12 years to state and/or federally subsidized after-school programs where they would receive first priority for enrollment. In cases where these types of programs are either not available or not appropriate to the work hours of the family, these children would still be eligible for subsidized child care services.

Staff notes that the Governor's Budget does not include an increase in state funding for before- and after-school programs to compensate for the above-noted shift in children. DOF staff note that they are expecting additional federal revenues for the 21<sup>st</sup> Century After School Learning Centers Program to be forthcoming.

- **Income Eligibility.** The Governor's proposal uses a three-tiered eligibility system that would reduce the income eligibility threshold for families living in lower-cost and mid-cost regions of the state; while holding income eligibility constant for families in higher-cost areas. As an example, under the Governor's draft proposal, a family of two living in San Francisco (high-cost county) would be ineligible for child care when their annual income reaches \$32,760, compared to \$29,784 if they lived in Fresno (low-cost county). For a family of four, those incomes would be \$39,000 and \$35,448, respectively. The Administration's intent is to codify the dollar figure associated with the income cap and then modify it annually based on the California Necessities Index (CNI) rather than basing income eligibility changes as a percentage of State Median Income.
- **Time Limits.** The proposal would place limits on the length of time families may receive subsidized care. In the case of children who are receiving care because their family member is enrolled in an education and/or training program, the Governor's proposal would limit care to two years.

CalWORKs families would be limited to two years in Stage 2 child care services (after they are off of cash aid) and 1 year in Stage 3 child care services. After that time, CalWORKs families would need to compete with the remainder of the "working poor" for a limited number of subsidized general child care slots. CalWORKs families that are currently in

Stage 3, and have been off of cash assistance for three years, would be allowed one more year of services before being forced to compete for the general child care slots.

**Reimbursement Rates.** In order to further reduce costs within the child care program and provide a monetary incentive to improve the quality of child care, the Governor is proposing to reduce the reimbursement rates to child care providers, while adopting a “tiered” funding mechanism (similar to a salary schedule) which would compensate providers more if they are licensed and accredited. Further, this new tiered schedule would reimburse providers caring for both subsidized and private-pay clients at a higher rate.